2022 Pre-Budget Consultation

January 2022

Standing Committee on Finance and Economic Affairs
comm-financeaffairs@ola.org

Table of Contents

Introduction

The Co-operators Group Limited ("Co-operators") is a leading Canadian, diversified, integrated, multi-line insurance and financial services organization. As a co-operative, our 46 members include co-operatives and credit union centrals representing a combined membership of millions of Canadians.

Our footprint in Ontario is strong: we insure approximately 704,000 private passenger vehicles, 363,200 homes, 10,200 farms and 45,000 businesses. We employ over 3,700 staff and have independent distribution contracts with 250 advisors, who in turn operate their own agencies. Our Ontario-based members include the Ontario Federation of Agriculture, Gay Lea Foods Co-operative Limited and the Co-operative Housing Federation of Canada.

We are proud to provide insurance and financial services to more than two million Canadians. We are even prouder that we provide financial security to Canadians in their communities while staying true to our co-operative values. That is why we invested over $2.2 million to charities, non-profits and co-operatives in Ontario last year alone.

We value the opportunity to participate in the 2022 pre-budget consultations. **Our recommendations focus on implementing transformational auto insurance product reform, protecting condo unit owners, supporting progress in the co-operative sector, and building resiliency in our communities, which includes leveraging private capital**.

Automobile Insurance

We commend recent action to improve the auto insurance system, including approval of the use of electronic proof of auto insurance, increased usage based insurance flexibility, the introduction of test and learn environments for innovative proposals, new towing and storage services legislation, and regulatory amendments allowing the use of electronic communication. These changes have already resulted in positive impacts for consumers. **However, to substantively reduce rates and establish long-term rate stability, transformational product reform is required.**

Recommendation
Pursue transformational product reform to provide comprehensive coverage, affordability and security for Ontario drivers

As we look towards the post-pandemic future, with a focus on collective and individual economic recovery, the need for transformational product reform to significantly reduce premiums is immediate. Within Budget 2022, we recommend a commitment to work collaboratively on transformational product reform with a view to lower premiums, enhance client outcomes and experience and improve market stability.

Recommendation Improve territory segmentation to reduce subsidization

We support a risk-based approach to rating where rates charged are proportionate to risk. The current restrictions on the number of territories insurers may use, combined with contiguity requirements, mean that drivers in certain areas of the province are forced to subsidize others.

We recommend the government work with the Financial Services Regulatory Authority of Ontario (FSRA) to rescind outdated Bulletin A-01/05, which restricts innovation, and allow insurers to segment using a number and distribution of territories that better aligns rates with risk to eliminate this subsidization. We would note that such a change would re-assign the current costs within the system. In order to resolve the cost challenges faced by Ontario drivers, continued reform (as outlined above) is necessary.

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Recommendation
Eliminate credit information as a prohibited factor

Credit score is an indicator that is predictive of risk, and its use allows insurers to allocate costs more fairly through premiums that are commensurate with risk and therefore reduce rate subsidization.

In the 2019 budget, we welcomed the announcement that drivers would soon have the choice to lower their premiums by allowing insurers to consider their credit history.

We recommend that Budget 2022 include a commitment to implement this important change, providing consumers greater choice and control over their policy.

Recommendation
Establish necessary alignment and regulatory flexibility to address fraud

Fraud is a widespread issue that has a considerable financial impact on the price of auto insurance. Research conducted by KPMG in 2010—which remains the most current comprehensive assessment of the impact of fraud—indicates fraud adds between $116 and $236 to the average annual premium.

The new *Towing and Storage Safety and Enforcement Act* is a positive step in addressing the prevalence of fraud and violence. We recommend additional measures to build on this success, including alignment between all system actors, including the government and regulator, to support fraud reduction. For example, insurance transactions are reliant on clients self-reporting information, which carries a high degree of trust. Given the growing usage of digital insurance platforms, consideration must be given to how the *Unfair and Deceptive Acts and Practices regulation*—and soon to be rule—will allow and support insurers' use of fraud detection controls within the context of FSRA's Take All Comers rule. Moreover, insurers and regulators need to be empowered with regulation and have the focus, resources, data analytics and the ability to take action (e.g. suspend or remove fraudulent providers).

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Condo Insurance

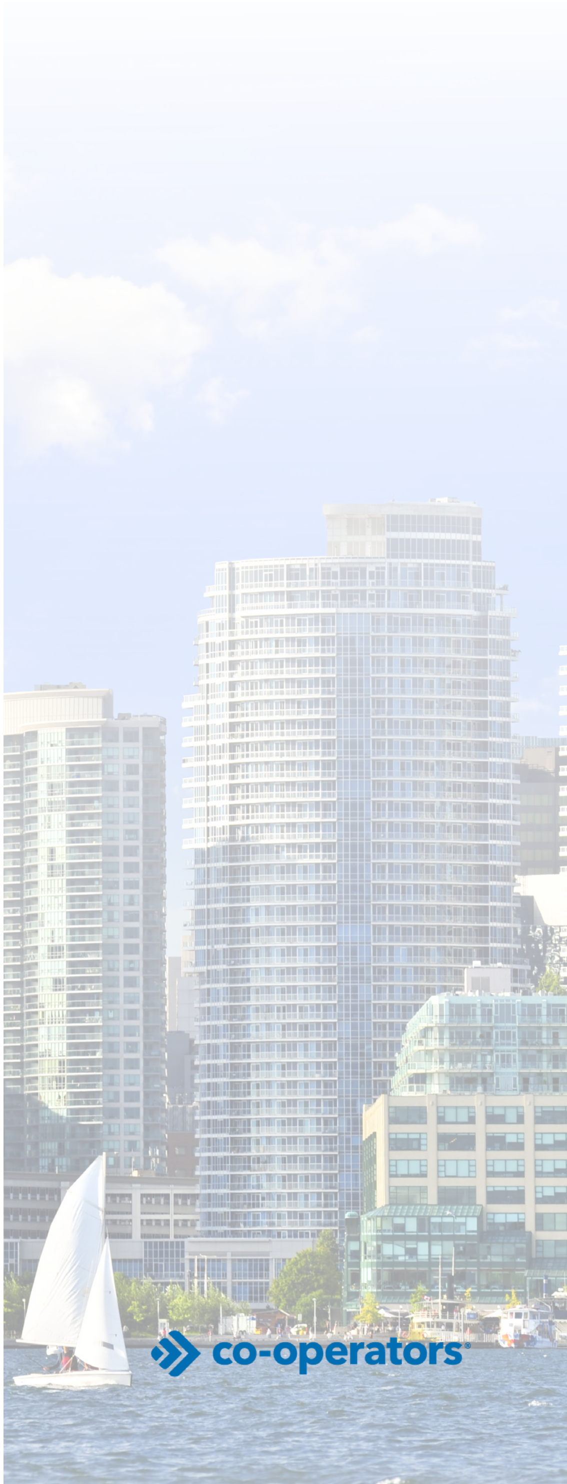
We commend the recent proactive effort to develop a better understanding of the issues the condominium community is facing, including those associated with condominium insurance affordability.

Recommendation The needs of condo unit owners must be at the forefront of a comprehensive solution to address issues faced by condo communities

Insurance availability and affordability issues for condo corporations have a direct correlation with the impacts we are observing on unit owners and their personal lines insurers, as both face the same core exposure in the market, and there is a growing problem of this exposure being pushed to personal lines insurers.

Underinsurance, absent perils and very high deductibles are becoming more commonplace with condo insurance coverages. Resulting shortfalls have become the responsibility of condo unit owners' personal policies to cover—or the responsibility of unit owners themselves if their personal policies are not adequate. Unit owners are therefore being pressured to find a solution to address the gaps in condo corporations' policies, which is putting increased pressure on personal lines insurers when the solution ultimately requires commercial insurers to address the growing coverage gaps. Individual unit owners should not be responsible for these shortfalls and should not be burdened with policing the condo corporation to ensure it is legally compliant with insurance regulations, particularly the adequacy of its insurance coverage.

As part of a comprehensive and holistic solution, we recommend condo corporations follow the reserve fund studies provided to them by independent professionals and develop and action maintenance plans to prevent smaller claims that can be avoided. We also recommend transparency and information sharing between a condo corporation and its unit owners—and in many cases, the third-party property manager who deals directly with the insurer or insurance broker—to ensure unit owners are aware of the important connection between the condo corporation's insurance policy and their own unit policy and what each covers. All those involved in condo communities, including condo councils, property managers and unit owners, should also have access to comprehensive education to empower them to make informed decisions on insurance and risk management.



Progress in the Co-operative Sector

As a proud co-operative, it is our conviction that Ontarians benefit greatly from the existence and growth of the co-operative business model.

The co-operative business model is resilient and highly innovative, and co-operatives across the province are dedicated to contributing to Ontario's recovery and growth.

Recommendation

Continue collaboration with the Ontario Co-operative Association to support progress in the co-operative sector

In order for Ontario's co-operatives to play an active part in the economic recovery from COVID-19, changes to the current Offering Statement limits are essential. These limits have not been reviewed since 1995 and are inadequate for co-operatives to raise the money they need in order to capitalize their businesses. We continue to support the Ontario Co-operative Association's recommendation to update the 25-year-old regulatory process to allow co-operatives to raise capital in a modern regulatory environment.

We further support the Ontario Co-operative Association's advocacy on necessary changes to the new business registry to properly integrate co-operatives, as well as amendments to the *Co-operative Corporations Act* to support virtual processes and digital signatures.

Continued collaboration with the Ontario Co-operative Association and its members—including Co-operators—will ensure policies and programs actively support the co-operative sector and contribute to the success and growth of co-operatives.

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Building Resiliency

We continue to advocate for momentum in reducing greenhouse gas emissions, implementing flood-proofing measures and leveraging private sector finance to make our communities more resilient. As a proud sustainability champion and leader in risk management, Co-operators takes a proactive approach in helping to build resilience.

COVID-19 Recovery and Growth

As we maintain the fight against the pandemic and plan for a full economic recovery, we urge collaboration to foster a clean and resilient economy.

Recommendation Undertake a collaborative and bold economic recovery

As part of the provincial COVID-19 recovery plans, we encourage Ontario to work with governments at all levels to align policies that prioritize climate change mitigation and adaption to send market and policy signals that support innovation. We must leverage our strengths and invest in our most promising assets that align with growing global markets. This will help to strengthen future competitiveness, reduce pollution, increase resiliency, improve energy productivity and create good jobs.

Reducing Greenhouse Gas Emissions

Our organization became carbon neutral equivalent at the end of 2020 and is the first Canadian insurer to join the UN-convened Net-Zero Asset Owner Alliance – an international group of institutional investors working to transition investment portfolios to net-zero emissions by 2050.

In order to meet established targets, we continue to support a price on carbon as the most economically efficient way of reducing emissions as it gives business the latitude to choose how to respond to the price signal.

Recommendation
Implement a price on carbon

Implement Recommendations from the Special Advisor on Flooding

In 2015, we became the first Canadian insurance company to introduce a Comprehensive Water product that protects clients against sudden and accidental flood damage and provides incentive to reduce the risk of flooding by offering discounts for water loss prevention. The product was offered in Ontario in 2016 and is now available to homeowners across Canada.

We welcomed the report released by Ontario's special advisor on flooding at the end of 2019. We believe that a collaborative effort between the provincial government, municipalities, public agencies and the private sector is needed to improve the current approach to flood resilience.

Recommendation Maintain progress on the implementation of findings from the special advisor on flooding

In particular, we support:

- the need to work with the insurance industry to raise awareness of the necessity and availability of overland flood insurance;
- the importance of adequately funding conservation authorities as well as establishing a provincial Elevation Mapping Program;
- incorporating references to "impacts of a changing climate" throughout provincial land use policies;
- consideration of regulating drainage standards in urban areas (such as backwater valves) and otherwise strengthening Building Code provisions;
- including a "build back better" component under the Disaster Recovery Assistance for Ontarians program to encourage municipalities to incorporate climate resilience improvements in infrastructure repairs and replacements; and
- the Disaster Recovery Assistance for Ontarians program be flexible enough to allow for removal of the structure from the floodplain (buyout) if it is the only technically and financially feasible option.

We see continued opportunity to empower homeowners to mitigate their risk and hold appropriate insurance. Over the long term, addressing flood risk before it becomes a disaster situation, for example, through nature-based solutions to flood resiliency, could save costs otherwise paid out through disaster recovery programs.

Leveraging Private Sector Capital

The *Made-in-Ontario Environment Plan* sets out a path for public-private partnership, recognizing the capital, capability and know-how the private sector contributes to our shared goal of a low-carbon economy. We are pleased the government has successfully issued Green Bonds to capitalize on the province's ability to raise funds at low interest rates and help finance public transit initiatives, extreme-weather resistant infrastructure, and energy efficiency and conservation projects.

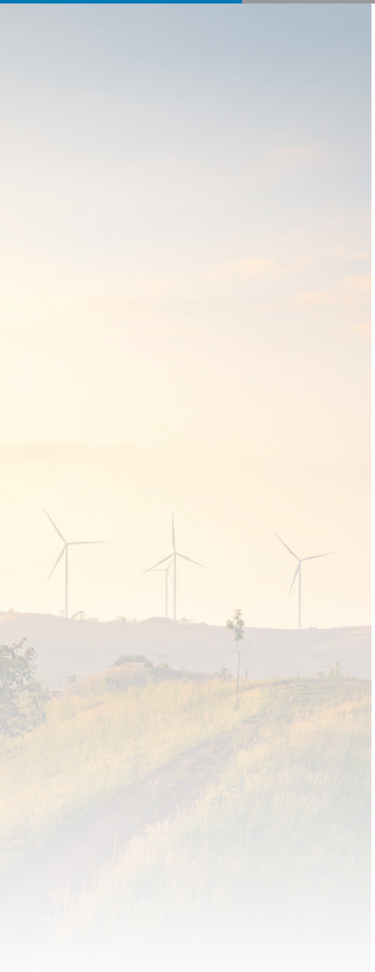
Our commitment to integrate sustainability and co-operative principles into our strategy and decision-making drives our goals and successes. In 2020, we met our ambitious target to invest over 20% of our total portfolio into impact investments that measurably address pressing environmental and social issues, and by 2030, will invest 60% of our invested assets into impact investments or investments that support the transition to a sustainable, resilient, low-emissions society. We continue to explore underserved markets to provide the financial advice that Canadians need in a rapidly changing world.

Recommendation Enable greater "green" investment opportunities for Ontarians

As an asset owner and a majority owner of an investment manager, **Addenda Capital**, with over $35 billion under management, Co-operators strongly believes the timing is right to enable broader investment in sustainability.

For us, sustainable investing involves a four-pronged approach that includes promoting sustainable financial markets, integration of environmental, social and corporate governance (ESG) considerations, stewardship and impact investing. Impact investing is an approach that seeks to create both compelling financial returns and positive social and/or environmental impact that can be adequately measured, tracked and reported. We are committed to this approach.

Unfortunately, the small scale of the existing investment opportunities is currently a barrier to greater mainstream investment in low-carbon impact investments, such as buildings, infrastructure and technologies. The small scale significantly hampers efforts to build large-scale mainstream investor interest in low-carbon impact investments.



For example, the due diligence effort required for a $500,000 private investment in an unknown enterprise (which might have a unique capital structure and a unique term sheet) is generally greater than the due diligence effort required for a $50,000,000 investment in debt issued by a public company with a long track record subject to scrutiny from many stakeholders.

To illustrate this point further, we refer to Ontario's social venture exchange, SVX, of which Addenda Capital is a member. There have not been many investment opportunities on the platform seeking to raise $5 million or more listed on the exchange. This small scale makes it difficult to invest capital.

Few Canadian investment managers are offering impact investing funds and many of the funds are small themselves. It is difficult for investors to deploy large amounts of capital into these funds because it would not be prudent to place such a large portion in any one fund.

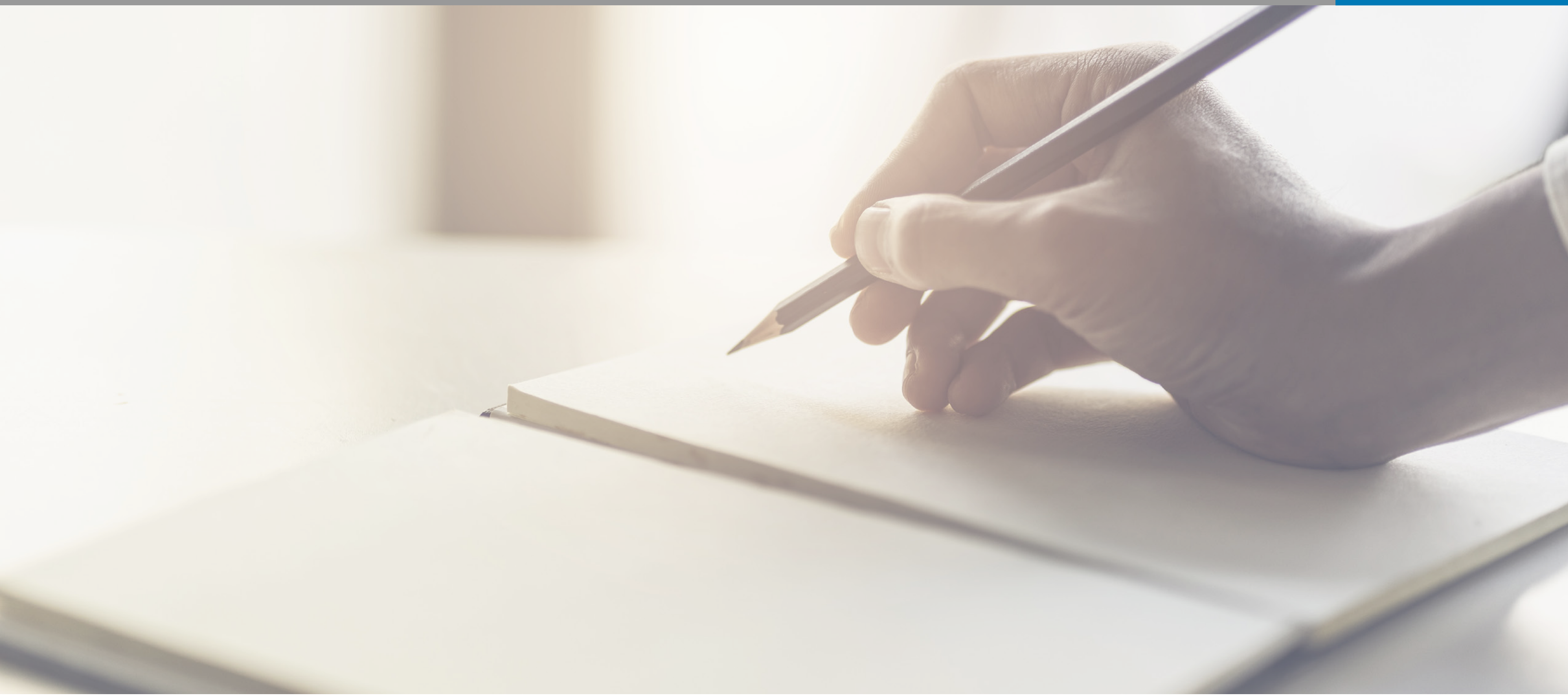
We recommend the government facilitate larger investment opportunities in order for impact investing to be carried out on a much larger scale and by more Ontarians. Larger investment opportunities would be more common if there were more intermediaries. Moreover, if there were more intermediaries, more capital would be ready to be deployed.

Recommendation Modernize the regulatory landscape for the capital markets sector

We support the work completed by the Capital Markets Modernization Taskforce, including its recommendations to help both to ease regulatory burdens and, more importantly, position Ontario's capital markets system for current and future needs.

As a leader within the industry, Addenda Capital provided recommendations to the Taskforce during its consultations, including enhancing corporate board diversity; maintaining a regulatory framework for proxy advisory firms that facilitates provision of independent third party advice to investors; requiring TSX-listed issuers to have an annual advisory shareholders' vote on the board's approach to executive compensation; and requiring enhanced disclosure of material environmental, social and governance (ESG) information, including forward-looking information, for TSX issuers in alignment with Sustainability Accounting Standard Board's (SASB) and Task Force on Climate-related Financial Disclosures' (TCFD) recommendations.

We are pleased to see this work has resulted in the development of the new draft *Capital Markets Act* and recommend the budget include a commitment to incorporate feedback from market participants in the draft act prior to its introduction. We further recommend that future reviews be scheduled to take place every five to seven years, as both the regulatory and economic environment are continuously evolving.



Concluding Remarks

Thank you for the opportunity to provide input on the upcoming provincial budget. We firmly believe that public policy is best served when interested stakeholders work collaboratively to assist in the development of that policy.

We believe we bring a unique perspective as a Canadian co-operative insurance and financial services organizations. We are not a member of the Insurance Bureau of Canada (IBC) and prefer to participate in the policy development process directly.

If you have any questions or require clarification, please do not hesitate to contact me at **maya_milardovic@cooperators.ca**.

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